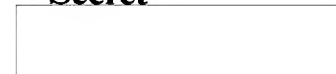




Director of
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The Outlook for Mexico

National Intelligence Estimate

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NIE 81-84
25 April 1984

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NIE 81-84

THE OUTLOOK FOR MEXICO

Information available as of 25 April 1984 was
used in the preparation of this Estimate.

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THIS ESTIMATE IS ISSUED BY THE DIRECTOR OF CENTRAL INTELLIGENCE.

THE NATIONAL FOREIGN INTELLIGENCE BOARD CONCURS, EXCEPT AS NOTED IN THE TEXT.

The following intelligence organizations participated in the preparation of the Estimate:

The Central Intelligence Agency, the Defense Intelligence Agency, the National Security Agency, and the intelligence organizations of the Departments of State and the Treasury.

Also Participating:

The Assistant Chief of Staff for Intelligence, Department of the Army

The Director of Naval Intelligence, Department of the Navy

The Assistant Chief of Staff, Intelligence, Department of the Air Force

The Director of Intelligence, Headquarters, Marine Corps

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CONTENTS

	<i>Page</i>
KEY JUDGMENTS.....	1
DISCUSSION.....	7
I. KEY CHARACTERISTICS OF THE SYSTEM.....	9
[REDACTED].....	9
[REDACTED].....	9
[REDACTED].....	11
[REDACTED].....	11
The Military and Security Forces.....	12
Revolutionary Ideology.....	13
II. IMMEDIATE CHALLENGES TO THE SYSTEM.....	15
A. Economic Stringencies and Constraints.....	16
Different Approaches.....	17
B. The Conservative Opposition.....	18
The National Action Party.....	19
C. The Slums.....	21
D. Leftwing Opposition.....	21
E. Cuban and Soviet Involvement.....	23
III. POTENTIAL CHALLENGES TO THE REGIME.....	23
A. Generational Strife.....	23
B. Leftist Dissidents.....	24
IV. THE OUTLOOK.....	24
A. De la Madrid.....	26
B. The Economy and Labor.....	27
C. The Military.....	28
25X1 V. [REDACTED].....	28
VI. IMPLICATIONS FOR THE UNITED STATES.....	30

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KEY JUDGMENTS

The Mexican political system is under greater stress today than at any time in the last 30 years. Ultimately, of course, the preservation of Mexico's stability will rest on the skill and competence of its leaders and on the strength of its political fabric. We judge that in the end the Mexican political system is likely to remain intact.

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During the last several years, Mexicans have grown increasingly dissatisfied with [REDACTED]

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[REDACTED] their highly centralized political system. As a result, the popularity and vitality of the ruling Institutional Revolutionary Party (PRI) have sharply diminished. Moreover, political leaders have been slow to adapt the PRI to the profound changes that have occurred in Mexican society. The two branches of the party that historically have been the most important—organized blue-collar labor and the peasants—have been shrinking in size relative to other social and interest groups. Meanwhile, most of the millions of people who have come from the countryside to fill the sprawling slums around all of Mexico's major cities—slumdweller now constitute between 20 and 25 percent of the population—may not have been effectively brought into the system. Thus the informal patron-client relationships that have helped glue the system together are in danger of breaking. Not surprisingly, opposition forces have gained strength. [REDACTED]

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When he was inaugurated President in December 1982, Miguel de la Madrid inherited a crisis more encompassing than any since the late 1930s. Under conditions of harsh austerity, high unemployment and underemployment, double- or triple-digit inflation, widespread business failures, and a crippling shortage of capital, the economy in 1983 contracted by about 6 percent. Virtually all social and economic groups have had to accept declining standards of living, scale down their expectations, and compete for benefits and opportunities in a negative-sum economic environment. De la Madrid has struggled to preserve social equilibrium and to restore public confidence in the political system. In particular, he has worked to distance himself from [REDACTED]

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[REDACTED] President Lopez Portillo and other senior officials of the previous government. By pursuing an anticorruption campaign that has included the imprisonment of at least one former high official and revelations of abuses by others, and by projecting an image of fairness, competence, and probity, the President so far has provided generally effective and popular leadership.

De la Madrid's most striking success has been in engineering a turnaround in Mexico's international economic accounts. In a little over a year, austerity has brought spending in line with available resources, inflation has begun to decline, and some confidence in the government's policies has been restored. By slashing imports and public-sector expenditures, raising the real costs of most goods, and making other tough adjustments the regime has met most of the stabilization requirements of the International Monetary Fund (IMF). Interest is being paid

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on the more than \$85 billion foreign debt, and by the end of 1983 the current account surplus reached about \$4 billion. With some flexibility to increase imports of badly needed capital and intermediate goods, Mexico probably will be able to stem the decline in economic activity and may perhaps recover this year.

De la Madrid's impressive performance thus far has prevented an immediate unraveling of the system, but has not been sufficient to dissipate the long-term threat to Mexico's stability. Although many variables will be involved, *the outlook through this decade and into the early 1990s will be shaped largely by the interplay of the following factors.*

The most important is probably de la Madrid himself: his outlook, psychology, skills, and leadership qualities.

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The economy and labor will also be key. Economic growth almost certainly will be insufficient to create enough jobs for the burgeoning labor force. Resources probably will not be adequate to maintain traditional programs that have subsidized working-class groups and helped to keep them quiescent. Labor has suffered under austerity, and indefinite sacrifice is not likely. Thus, the President will increasingly have to make difficult trade-offs among economic objectives that will tend to alienate some politically important sectors while helping others. In the unlikely event that economic activity were to continue declining for another four or five years, the prospects for regime-threatening instability would rise significantly.

Conservative opposition forces generally will be more assertive. These forces are concentrated in the center-right National Action Party (PAN). We believe that the rise of opposition sentiment in the northern border region reflects the spectacular economic and demographic expansion there over the last decade or so, as well as dissatisfaction with the regime's economic policies and statist philosophy and tampering with election results. These trends have been paralleled, moreover, by indications of dissidence in Mexico's poor and underdeveloped southern states where Communist, radical, and other opposition groups are organizing.

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Meanwhile, *extreme leftist groups are also active*. Leaders of the Unified Socialist Party of Mexico (PSUM), a Communist-dominated coalition, reportedly have decided to increase their recruiting and organizational efforts in the southern-tier states closest to Central America. Working through radical peasant, student, and labor groups, the PSUM could generate increased support for its causes, but it will most likely pose smaller and more containable challenges than the rightwing opposition.

Cuba and the Soviet Union maintain contact with and provide funding and other support to local leftists and revolutionaries from Central America and elsewhere, but with few exceptions they have been reluctant to support committed revolutionaries who would employ violent methods against the Mexican regime. Nonetheless, if levels of instability were to rise in Mexico, we believe it would be more likely that Cuba and the USSR would expand their subversive activities, and it would be easier for them to do so.

As long as relative stability continues, the military would be disinclined to intervene in the political process. Such intervention would violate rules that have governed their behavior since the 1940s.

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any significant increase in instability or external threat, military involvement in the policy process would rise as more areas of governmental concern took on a security dimension.

We are reasonably certain that some transformation of the Mexican political system is likely during the period of this Estimate.

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Whatever the true course of events, US political and economic interests will be affected substantially by conditions in Mexico during the period of this Estimate. The security of the US southern border depends on the continued existence of a stable, united, and peaceful Mexican neighbor. Other core interests—

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the flow of illegal migrants and drugs into this country, the availability of Mexican petroleum, bilateral trade and investment relationships, and Mexico's continued willingness to make payments on its foreign debt—will be affected by Mexico's success in dealing with the challenges facing it.

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DISCUSSION

1. Until the foreign exchange crisis and economic collapse in 1982, Mexico was perhaps the most unqualified success story in the developing world. From its inception in the late 1920s and 1930s, the country's unique political system had provided over 50 years of relative social tranquillity, political stability, and economic growth. Since 1934, nine presidents have served in regular succession, wielding and yielding power according to elaborate constitutional and informal rules that are rooted in 150 years of the country's myth and history. Unlike most Latin American countries, furthermore, there have been no military interventions, serious coup plots, strong guerrilla or terrorist movements, or large outbursts of antiregime violence. Unlike all of them too, in Mexico the economy grew with few lean years and at impressive high rates for a half century until 1981. In fact, with an average annual growth rate of over 6 percent during those decades, cumulative material gains in Mexico were among the highest achieved anywhere in the developing world. The prospects for economic development and diversification were buoyed in the late 1970s, furthermore, when Mexico's extensive newly discovered oil reserves began to be exploited.

2. Pressures on former President Lopez Portillo to increase public spending became irresistible after Mexico became a net oil exporter, but the former President's tendency toward grandiose scheming contributed significantly to the disastrous boom and bust cycle that followed. Mexico pursued a development strategy in large part dependent on massive public investment of oil revenues. As public expenditures burgeoned, pushing growth rates to as high as 8 and 9 percent annually, the economy began to overheat in the late 1970s. Inflation mounted, the peso became highly overvalued, and the competitiveness of Mexico's nonoil exports was undermined. Foreign borrowing was stepped up to compensate for soaring current account deficits even as interest rates were rising. Lopez Portillo stubbornly refused to devalue the peso until 1982, and foreign exchange policies served as a positive inducement to capital flight. Billions of dollars were expatriated as Mexicans deposited, invested, and spent lavishly abroad. The foreign exchange and debt

crisis that Lopez Portillo acknowledged in August 1982, and his nationalization of the country's private banks the following month, strongly undermined the private sector.

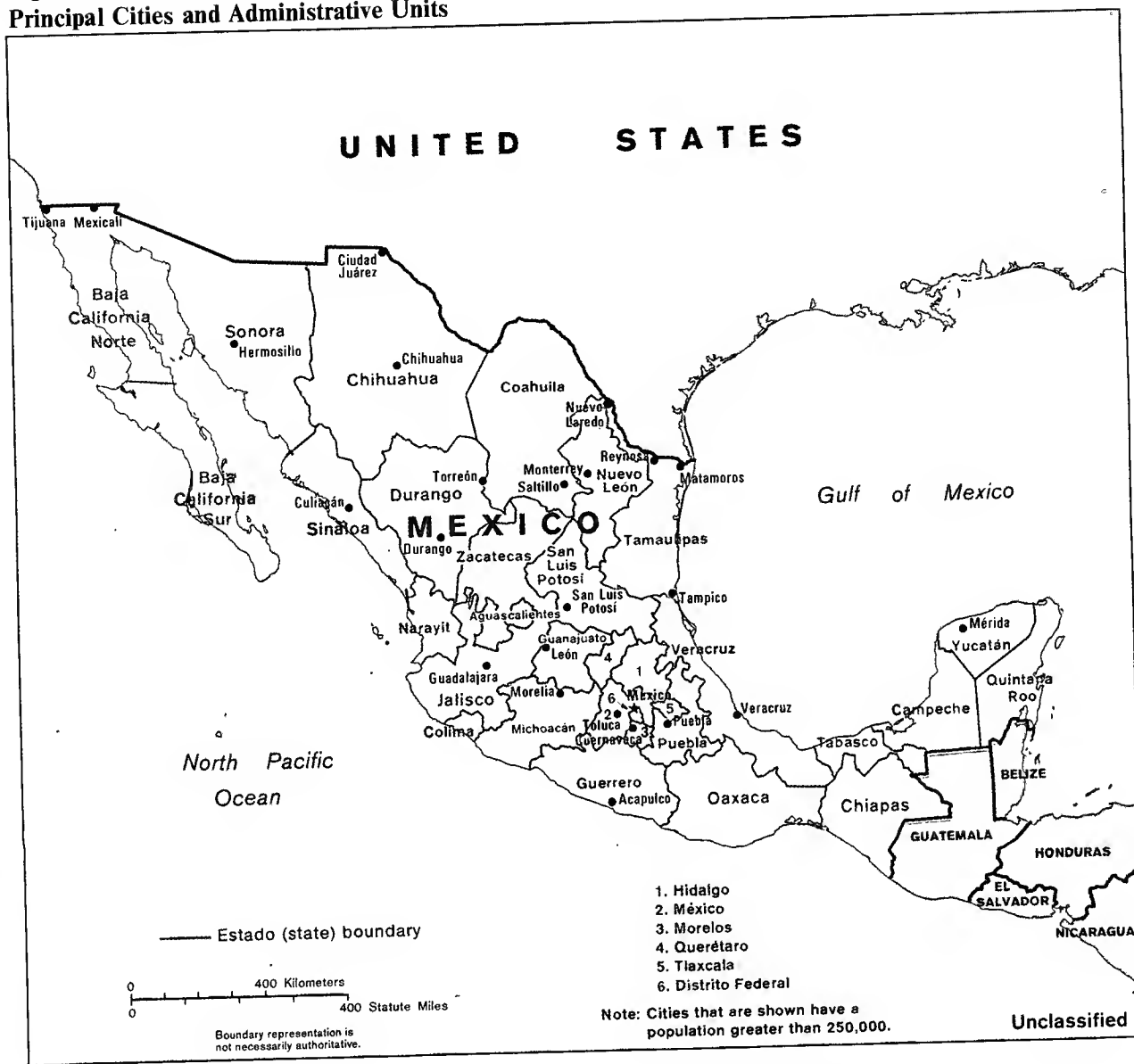
3. Inaugurated President in December 1982, Miguel de la Madrid inherited a crisis more encompassing than any since the late 1930s. Under conditions of harsh austerity, high unemployment and underemployment, double- or triple-digit inflation, widespread business failures, and a crippling shortage of capital, the economy contracted by about 6 percent in 1983. Virtually all social and economic groups have had to accept declining standards of living, scale down their expectations, and compete for benefits and opportunities in a negative sum economic environment. De la Madrid has struggled to preserve social equilibrium and to restore public confidence in the political system. In particular, he has endeavored to distance himself from the egregious corruption and failures of Lopez Portillo and other senior officials of the last government. By pursuing an anticorruption campaign that has included the imprisonment of at least one former high official and revelations of abuses by others, and by projecting an image of fairness, competence, and probity, the President so far has provided generally effective and popular leadership.

4. De la Madrid's most striking success has been in engineering a turnaround in Mexico's international economic accounts. In a little over a year, austerity has brought spending in line with available resources, inflation has begun to decline, and some confidence in the government's policies has been restored. By slashing imports and public-sector expenditures, raising the real costs of most goods, and making other tough adjustments the regime has met most of the stabilization requirements of the International Monetary Fund (IMF). Interest is being paid on the more than \$85 billion foreign debt, and by the end of 1983 the current account surplus reached about \$4 billion. With some flexibility to increase imports of badly needed capital and intermediate goods, Mexico probably will be able to stem the decline in economic activity and may begin recovery this year. This progress has been achieved, moreover, without engendering any serious

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Figure 1
Principal Cities and Administrative Units



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social disruptions or ruptures in the "revolutionary family" of groups that support the regime.

5. The political system appears to be strong, but we believe it is now under serious stress both because of the economic crisis and because it has been slow to keep up with profound social, economic, and demographic changes. In a society that has been rapidly transformed from a largely rural, agricultural one to an urban and increasingly modern one, the centralized, one-party form of government has come under great pressure. Mexicans are more educated (there are about 1 million university students), more sophisticated,

and aware of international developments than ever before. They are more diverse in their interests and outlooks, and, in the aftermath of the 1982 economic shocks, show signs of being more dissatisfied with the corruption, misjudgments, and the restricted nature of their political system. As a result of these trends, the popularity and vitality of the Institutional Revolutionary Party (PRI) have diminished, at least temporarily.

6. Political leaders have been slow to adapt the PRI to the profound changes in Mexican society. The two branches of the party that historically have been the most important—organized blue-collar labor and the peasants—have been shrinking in size relative to other

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social and interests groups. The PRI probably can still rely on its peasant organization to turn out voters for its candidates, but the portion of the population living in rural areas, which was two-thirds of the total 35 years ago, is now less than one-third. There are also indications that the percentage of the Mexican labor force affiliated with the blue-collar labor sector of the party—the Confederation of Mexican Workers (CTM)—has been gradually shrinking in recent decades. Meanwhile, most of the millions of people who have filled the sprawling slums around all of Mexico's major cities—slumdweller now constitute between 20 and 25 percent of the population—may not have been absorbed effectively by the PRI or the system generally. So far, however, the informal patron-client relationships that have helped glue the system together have not broken down.

7. Over the last several years, opposition forces have gained strength. The most powerful of them is the center-right National Action Party (PAN). It has made substantial gains over the last year or so in Yucatan and especially in the northern border regions. We believe that the rise of opposition sentiment in the north reflects that region's spectacular economic and demographic expansion over the last decade or so, the desire of vibrant private-sector interests there to increase exchange with the United States, and dissatisfaction with the regime's economic policies and statist philosophy. Antagonism between private-sector interests in the north and the regime intensified under the impact of the economic crisis. These trends have been paralleled, moreover, by indications of dissidence in Mexico's poor and underdeveloped southern states where Communist, radical, and other opposition groups have been active.

I. KEY CHARACTERISTICS OF THE SYSTEM

8. Mexico's political system, one of the most complex and inscrutable in the developing world, has monopolized power for over five decades. Presidents serve for six years with enormous powers that are largely derived from their control of both the hegemonic PRI and the large federal bureaucracy. Government leaders and party bosses have been skilled in employing a pragmatic mix of policies and tactics: tacking as necessary in changing political winds; adjusting the balance of political power among elite groups; isolating dissidents; manipulating the media; upholding a high degree of secrecy and mystery in the system; maintaining a monopoly of repressive power; and exercising exclusive rights to the "revolutionary" ideals that provide the system legitimacy as a progres-

sive force. Traditionally, the system has demonstrated resiliency and adaptability by adjusting to new circumstances, co-opting newly arising dissident factions, and claiming to represent and satisfy nearly all major interest groups. The regime's total control over patronage and the apportionment of material rewards has been perhaps its most powerful asset in preserving its monopoly of power.

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The Military and Security Forces

18. The Mexican political system has been unique in the region over the last 50 years or so with respect to

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the marginal and basically nonpolitical role it has assigned to the military. With a total force of about 124,000, Mexico has a smaller percentage of men in uniform than any other Latin American country except Costa Rica. The defense share of the federal budget has remained below 5 percent since 1960, and has generally diminished since then. With rare exceptions, senior military officers have given unconditional support to the country's civilian leadership, and their loyalty is encouraged through a variety of informal mechanisms-

19. Despite the military's relatively small size and share of public expenditures, the last three presidents have endeavored to upgrade and modernize its capabilities to fulfill its more complicated mission. Troop strength has grown by about 60 percent over the past decade.

20. With a personnel strength of about 95,000, the Army is the largest of the services, and the one with the principal responsibility for maintaining internal security. With over 100 battalion-size units—including 20 new infantry and cavalry units created since 1970—the Army has a presence in many cities and rural areas. The basic deployment pattern remains focused, however, on Mexico City and its environs (see figures 2). Although the regular armed forces have the primary responsibility for internal as well as external security, Mexican governments have used civilian security services as the first line of defense against domestic unrest. Regular police forces handle demonstrations staged by students, teachers, or other groups, and plainclothes security units collect intelligence on dissident movements.

Inadequately staffed, trained, and equipped, local police and security forces rely heavily on the Army to help control any sizable demonstrations.

21. The most effective civilian internal security force is the Federal Directorate of Security (DFS), subordinate to Manuel Bartlett, the Secretary of Government. The DFS fields about 1,300 agents

at its Mexico City headquarters and at branches in all of the states. Better trained and armed than other civilian security personnel, DFS teams probably have increased covert intelligence operations along the Guatemalan border in recent years and have stepped up infiltration of opposition political groups. The Directorate's main responsibility is to monitor suspected dissidents and opposition groups with a view to discovering and investigating any possible subversive efforts. The DFS does not hesitate to conduct searches and seizures and even to detain and interrogate individuals suspected of subversion.

Revolutionary Ideology

22. Revolutionary ideology has played an essential role in the political process and culture. Deriving from a panoply of myths and accomplishments associated

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with the Revolution and its aftermath, this ideology provides a framework and a set of egalitarian standards that give legitimacy to the system. Fought in large part by and for Indians, peasants, and the working class generally, the Mexican Revolution gave impetus to decades of reforms that have realigned relationships among the country's social groups. For the first time since the Spanish conquest, the Indian peoples and their rich heritage were nourished officially as the very essence of the Mexican identity. Aztec heroes were lionized, Indian art and architecture exalted, and Indian characteristics and culture came to suffuse the national consciousness.

23. In contrast to this "revolutionary" hagiography are the many foreign intruders and enemies—Spanish conquistadors, French imperial pretenders, and assorted interlopers from the United States—all of whom are seen as having injured and exploited the rightful owners of Mexico's resources. Even more vilified than such "predatory" outsiders are the Mexican traitors who conspired with the foreigners. They are known specifically as *malinches* after the Indian woman who translated for Cortes. Lopez Portillo provided the most recent example of revolutionary demagoguery when he nationalized the private banks and imposed tough foreign exchange controls, arguing that *sacadolares*, unpatriotic Mexicans who removed capital from the country, had brought on the economic crisis.

24. Despite the mythology, Indians and peasants have been relatively neglected by the political establishment, and progressively so during the last 15 or 20 years. Their share of political power and the material rewards dispensed in recent decades has been shrinking compared to what the middle class and organized labor get, and there is little chance that the situation will improve any time soon. We do not know to what extent conditions in the countryside have deteriorated in the aftermath of the economic crisis. Land seizures and other violence have occurred, although the levels of such unrest do not appear to be unusually high.

25. Revolutionary ideology strongly influences Mexico's foreign policy. Certain principles—nonintervention, the juridical equality of nations, and the right of all peoples to self-determination—are based on Mexico's own experiences and constitute the foundation of its foreign policies, especially in relations with the United States and the rest of Latin America. In particular, these well-established beliefs provide the rationale for Mexican activities and rhetoric in support of Central American revolutionaries. The official explanation—that most Central American countries can

only benefit, as Mexico ultimately did, from the catharsis of violent social upheaval—apparently has substantial support among key interest groups. More important, however, everything that Mexican leaders say and do in behalf of revolutionaries in the region serves to mollify the domestic extreme left and allow it a legitimate means of venting its frustrations. Revolutionary ideology serves the greater interests of the regime, therefore, by helping to reinforce it.

II. IMMEDIATE CHALLENGES TO THE SYSTEM

26. Profound political, social, economic, and demographic changes have occurred in Mexico over the last two decades. Key factors in this changing socioeconomic landscape are:

- Rapid population growth. (Nearly 80 percent of the people are under 35.)
- Urbanization and the corresponding decline of the rural sector. (Agricultural production has declined to less than 9 percent of GDP from 18 percent in 1955.)
- The sizable expansion of middle-class groups and of their educational aspirations and accomplishments.
- Glaringly uneven distribution of income and wealth. (In recent decades the share of national income of the poorest half of the population has steadily declined, though in absolute terms the poor improved their lot gradually, at least until 1981.)
- The concentration of economic and political power in Mexico City and the suffocating growth of that metropolis of more than 15 million nearly to the limits that water and other resources will permit.
- The steady growth in the size, complexity, power, inefficiency- [redacted] of the central government.
- North-south polarizing trends that are pulling economic activity in Mexico's northern border regions away from the capital and toward the United States, and the emergence of radical groups in poor southern states.
- The dislocations and excesses associated with the oil boom and bust cycle.

These and other problems illustrate the seriousness of the threat posed by the following specific challenges to the system.

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A. Economic Stringencies and Constraints

27. President de la Madrid's tough austerity measures have eased considerably the immediate financial crisis he inherited, but have not solved Mexico's deep structural problems. By bringing Mexico's foreign financial accounts largely into balance and by initiating some economic reforms, he has helped the country regain some access to foreign capital markets. But in the near term, these severe adjustments have been accompanied by a sharp decline in economic activity and sharply reduced living standards. Last year, GDP fell 6 percent as wages and government spending were slashed, consumer subsidies reduced, price controls relaxed, and the peso sharply devalued.

28. To continue making progress, de la Madrid will have to hold the economy on a relatively tight leash well into his administration. If he holds fast to austerity to lay a sound foundation for eventual economic recovery, inflation would be reduced, the foreign exchange rate would begin to stabilize, and financial independence would be partially regained through restraining the expansion of the debt service burden. Accompanying such a policy, however, would be further unemployment and a postponement in any improvement in living standards.

29. His task will not be easy. De la Madrid will be under pressure to attack unemployment through a faster rebound in industrial production even at the cost of continued high inflation and expanded foreign debt. He will also have to weigh demands for less restrictive investment and trade controls to reduce the number of bankruptcies of inefficient domestic firms and show he has not forfeited control of national decisionmaking authority.

30. Regardless of the policy mix chosen, we believe it is unlikely that Mexico will regain normal access to foreign capital markets and reestablish economic growth—and job creation—on a sustainable basis within the next few years. The depth of Mexico's problems and the magnitude of its foreign debt overhang ensure that production is not likely to reach the level of the early 1980s for at least another few years. Real personal consumption will remain below the 1980 and 1981 levels during the remaining five or so years of de la Madrid's term.

31. In attempting to steer through this maze of problems, de la Madrid and his advisers will be guided, we believe, by four basic economic objectives, each backed by various political elites and command-

ing wide support among the populace. These goals, however, cannot all be achieved simultaneously.

32. *Price and Exchange Stability.* The current priority concern of the government is to reestablish stable prices and to strengthen the peso. Traditionally, relatively stable prices and exchange rates facilitated rising consumption and living standards. Since 1982, however, hyperinflation has shaved off one-third of real wages and has led to a sharp drop in the peso. Lost foreign purchasing power has had an especially deleterious impact on middle-class groups who, during the years of oil-fueled growth, became accustomed to spending overvalued pesos for foreign luxury and consumer goods. De la Madrid's comment in a press conference last October that "inflation is the most serious problem facing the country" indicates his continuing commitment to this key objective.

33. *Financial Independence.* The second imperative of government economic policy is that of adjusting domestic spending to levels that can be supported by domestic resources. De la Madrid's current austerity policies are aimed at regaining financial independence by ending the need for "massive new loans" and honoring past commitments. This has led to a greatly reduced foreign borrowing program and delaying loan drawdowns when possible. De la Madrid is scaling back development projects and increasing local taxes in an effort to pay government debt and capital purchases out of domestic savings.

34. *Economic Recovery and New Jobs.* Mexican leaders realize that economic performance must begin to improve soon if key constituencies in the "revolutionary family" are to remain quiescent and if new employment opportunities are to be created. Only with economic recovery can the conditions be created for economic mobility and openings for ambitious Mexicans of all classes who might otherwise become threats to the system.

35. *Balanced Mixed Economy.* Mexican decision-makers are in many ways as concerned about how the economy grows as how fast it does. Development strategy has long reflected the overriding principle of economic nationalism, characterized by protectionism, restrictions on foreign investment, and conservation of natural—and especially oil—resources. These attitudes have resulted in the rapidly expanding role of government and large public enterprises in the economy. Nevertheless, Mexico's private sector continues to provide the bulk of employment and, under the strictures imposed by the IMF program, the private sector will

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have to generate the jobs to satisfy rapid expansion of the labor force.

Different Approaches

36. Economic trends and policies during the rest of the 1980s will be determined in large part by the compromises and trade-offs among the basic economic objectives made by de la Madrid and his successor. While we project two approaches, we believe actual policies and trends will fall somewhere between the two. In the first case, de la Madrid could relax austerity and reflate the economy soon in response to growing political pressures and social unrest, but this course would probably lead to recurrent financial crises. Alternatively, he could continue to follow a tough stabilization program, followed by years of restrained growth. In either case, we believe that during the next two years Mexico will be unable to finance sufficient imports to support a substantial increase in productive capacity or economic activity. For the balance of the 1980s, a slow increase in export earnings and foreign bankers' resistance to substantially expand commitments to Mexico will act to hold back economic expansion.

37. If Mexico relaxed austerity in 1984, the economy would grow somewhat. Nevertheless, unemployment and underemployment would not improve much. The costs would be substantial:

- Greatly increased government deficits.
- Near triple-digit inflation.
- Sharply higher foreign borrowing requirements.
- Rapid depreciation of the peso.

These pressures would probably lead to a new and more serious foreign exchange crisis unless de la Madrid chose to open the economy wide to foreign investment and to provide guarantees that would encourage foreign banks to renew and increase loan and trade credit lines.

38. Should de la Madrid pursue this course, Mexico's economic stabilization program would be endangered. If higher spending in 1984 caused Mexico to miss IMF performance targets by a wide margin, we believe de la Madrid would find it necessary to clamp down on the economy again to ensure continued access to essential foreign funding. Introducing such start-stop policies could drag out economic recovery, cause recurrent financial crises, and undercut the government's longer term objective of creating enough jobs for a rapidly growing labor force.

39. If de la Madrid continues austerity, lowered inflation, fiscal restraint, and depressed imports would reduce foreign borrowing requirements. Once a sound basis for renewed growth in economic activity was laid, de la Madrid could introduce stimulative policies that would spur growth but avoid overheating the economy once again. Even under these circumstances, growth rates for the balance of the decade would most likely remain below the 6-percent average achieved in the period 1950-80. Mexico still would experience considerable costs:

- Reductions in per capita consumption through most of de la Madrid's administration.
- Rising unemployment and underemployment.

In this case, Mexican leaders would in all likelihood come under mounting pressure from labor, the middle class, government workers, and others to expand public spending.

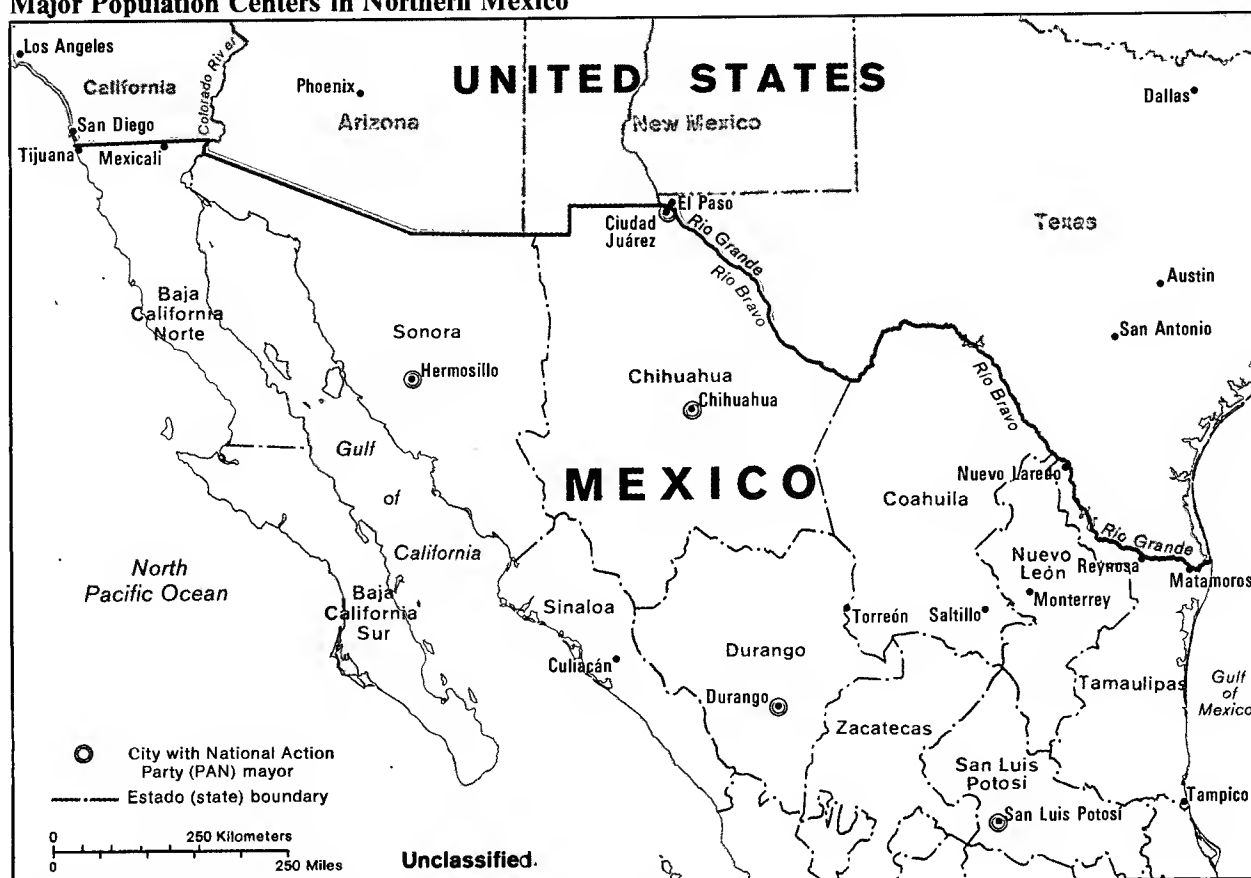
40. To make tough decisions on macroeconomic issues even more complex for de la Madrid and his advisers, much will depend on factors beyond their control. A setback in the current world economic recovery, a fall in oil prices, or a deterioration in the international lending climate—perhaps brought on by a debt default in another country—could boost world interest rates, undermine demand for Mexican exports, and constrict credit availability. Under such circumstances Mexican policymakers' options would be severely restricted. On the other hand, a major disruption in world oil supplies—brought on by conflict in the Persian Gulf area, for instance—could temporarily boost Mexico's oil revenues and allow increased imports for a time without aggravating foreign payments problems.

41. Thus, we conclude that economic factors will continue to constrain policymaking throughout the 1980s. The choice of direction and means will involve trade-offs among economic objectives that will tend to alienate some sectors while helping others. Unless Mexico benefits from an unexpected windfall, economic growth will be insufficient to create enough jobs for the burgeoning labor force. Available resources will be insufficient to maintain traditional programs. Subsidies, for example, will continue to be cut, while housing, schooling, and public services will still be wanting in many urban and rural areas. At the same time, introducing long-promised structural reforms that are necessary if Mexican industry is to meet international competition will threaten established and highly protected businesses, while aiding innovative

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Figure 3
Major Population Centers in Northern Mexico



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entrepreneurs. Even maintaining a competitive exchange rate to spur export growth will keep foreign travel and purchases prohibitively expensive for many in the middle class who had previously enjoyed such opportunities.

B. The Conservative Opposition

42. Although greater Mexico City has grown at rapid rates—and is now home to more than 15 million people—the two dozen next largest cities have expanded at similar and even higher rates. The most spectacular growth has been in the northern tier states, where 12 of the country's 25 largest cities are located within 260 miles of the US border (see figure 3 and table 2). By 1980 each of these cities had grown to over a quarter of a million people. During the 1970s their average rate of growth was about 12 percent higher than Mexico City's, and we estimate that together they now account for nearly 9 percent of the national population, a share that will increase to 12 percent by the end of the decade if recent high rates of expansion

persist. Six of the largest cities—from Tijuana on the Pacific to Matamoros on the Gulf of Mexico—are on the border with the United States, and all have doubled or nearly doubled in size since 1970 while becoming increasingly vibrant as commercial and industrial centers and funnels for contacts with the United States.

43. The flow of people and economic activity into the northern border regions has considerable political significance. Most of the growth has been the result of private-sector initiatives and of commerce and other exchange with the United States. With the exceptions of Hermosillo and Tampico, which have benefited considerably from national government efforts to decentralize economic activity in regional development zones, the northern tier cities have seemingly grown primarily as a result of "pull" forces from the United States rather than planning in Mexico City. Monterrey, Mexico's premier center of private-sector industrial activity, has grown rapidly, while major entrepôts like Ciudad Juárez, Mexicali, and Tijuana were trans-

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Table 2
Urbanization in Mexico

	Population of the 25 Largest Cities ^a (Thousands)				Annual Growth Rate (Percent) 1970-80 ^c
	1960	1970	1980	1990 (estimated) ^b	
Federal District ^d	4,871	6,874	9,991	14,507	3.8
Guadalajara, Jalisco	737	1,194	2,178	3,975	6.2
Monterrey, Nuevo Leon	597	858	1,702	3,380	7.1
Puebla, Puebla	289	402	771	1,475	6.7
Ciudad Juarez, Chihuahua	262	407	680	1,140	5.3
Leon, Guanajuato	210	365	596	971	5.0
Tijuana, Baja California Norte	152	277	542	1,056	6.9
Mexicali, Baja California Norte	175	267	495	920	6.4
Tampico, Tamaulipas	123	180	428	1,013	9.0
Torreon, Coahuila	180	223	416	774	6.4
Chihuahua, Chihuahua	150	257	402	630	4.6
Merida, Yucatan	171	212	344	560	5.0
San Luis Potosi, San Luis Potosi	160	230	338	496	3.9
Acapulco (De Juarez), Guerrero	85	174	335	647	6.8
Veracruz, Veracruz	145	214	333	517	4.5
Hermosillo, Sonora	96	176	304	788	10.0
Cuernavaca, Morelos	37	134	295	649	8.2
Culican, Sinaloa	85	168	281	471	5.3
Nuevo Laredo, Tamaulipas	93	149	272	496	6.2
Matamoros, Tamaulipas	92	138	258	484	6.5
Saltillo, Coahuila	99	161	243	367	4.2
Reynosa, Tamaulipas	74	137	240	422	5.8
Durango, Durango	97	151	239	378	4.7
Morelia, Michoacan	101	161	238	352	4.0
Toluca, Mexico	77	114	234	482	7.5

^a Cities ranked on 1980 population.

^b Based on 1970-80 annual growth rate.

^c Average annual growth rate (1970-80), excluding Federal District, 6.0 percent.

^d The population of the Mexico City metropolitan area is at least 50 percent larger than the Federal District; in the period 1970 to 1980, it grew much more rapidly.

This table is Unclassified.

formed from tawdry border towns into large and diversified entrepreneurial centers.

44. Long before the economic collapse in 1982, tensions between these border regions and Mexico City were multiplying. The former sought a larger share of political power, less restricted exchange with the United States, and a slice of the federal budget compatible with their increased importance. The economic crisis, moreover, exacerbated these tensions as the border economies were especially damaged by the

devaluations of the peso, foreign exchange controls, and the sharp drop in imports from the United States.

The National Action Party

45. The National Action Party (PAN—which means bread in Spanish) has been growing over the last 30 years as the leading alternative to the PRI, and its greatest gains have been in the northern border regions and in Yucatan. According to the government's count,

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PAN captured 16 percent of the vote in the July 1982 presidential elections. That was more than all of the other opposition parties combined, and PAN's largest share ever. The PAN vote probably was larger, but we doubt it reached the 46 percent that the party's own official election postmortem claims. Since then, PAN has been victorious in an unprecedented series of local elections, and in some northern cities and regions it appears to be the de facto majority party. In September 1982 it won mayoral contests in the state capitals of Sonora and, in alliance with another conservative party, in San Luis Potosi. In July 1983, it won mayoralties in Durango, the capital of the state of the same name and, more important, in Chihuahua state where it took the three largest cities, including the state capital and Ciudad Juarez, which is the country's fifth-largest city.

46. A number of factors seem to explain the growth of PAN's support. The party traditionally has appealed primarily to wealthy, middle-class, business, and church-oriented constituencies. With modernization and urbanization, those sectors have become larger as a percentage of the total Mexican population over the last two decades, thus accounting in part for PAN's greater popularity. In addition to this growth by accretion of its natural constituency, the party has probably also succeeded in extending its appeal to some groups not previously inclined toward it. Presumably a large share of the ballots PAN candidates have won in recent elections have been protest votes rather than enduring expressions of support for the opposition. PAN probably has benefited from the widespread dissatisfaction resulting from the corruption and the disastrous economic policies of the last government. But, even with the added support of the many middle-class and other Mexicans now opposed to continued PRI hegemony, the PAN is handicapped by many serious problems: the paucity of leaders with national experience; the weakness of its infrastructure; its failure to come up with national political platforms; and a general perception that it is the party of wealthy elites.

47.

48. Conservative forces generally, and the increasingly dissatisfied urban interests in the northern border regions and Yucatan in particular, will be more assertive in Mexican politics during the period of this Estimate. Growing numbers of the provincial bourgeoisie are disillusioned with the results of steadily expanding government and party influence in their lives and are searching for alternatives they can control. Among these are the new church-related and other independent schools, neighborhood, community, and other activist groups, and probably a variety of private-sector organizations that share an interest in restoring individual and family values. Additional "new right" religious and secular groups may emerge and begin to play political roles during de la Madrid's term and beyond, but only a few would be likely to resort to violence, even if they are forcefully repressed by the regime.

49. On balance, we believe that the PAN has expanded its core constituency in recent years, and that it will mount progressively more effective opposition to the system. As the population has become younger and more urbanized, the PAN has probably acquired large new followings that could remain more or less permanently in their camp. According to one academic study, the PAN has made significant inroads among working-class people in Baja California Norte, and we have scattered additional indications that this is also the case elsewhere in the northern border regions.

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C. The Slums

50. Although urbanization has been widely dispersed, the most explosive growth has been in the *colonias populares*, the teeming slums and squatter settlements around the principal cities. One of these, Netzahualcoyotl, on the outskirts of the capital, has been burgeoning at an annual rate of more than 50 percent during the last 15 years or so. In 1970 it appeared for the first time in Mexican census data—as the fourth-largest “city” in the country. By 1980, with an estimated population of close to 3 million, it was no longer listed separately, perhaps because the government does not want to call attention to it. Many other huge new slum settlements like it have mushroomed on the outskirts of most of the other cities too, expanding in fact more rapidly in relative terms in the provinces than in the metropolitan capital area. The extraordinary rapidity of slum expansion has resulted in new arrivals coming to be known as *paracaidistas*—parachutists, who seemingly drop in silently and in such numbers as to transform completely the places where they alight. Even before the economic crisis, unemployment and underemployment rates in the slums were the highest in the country.

51. Despite such conditions, however, there have been no large riots like those that have occurred in some cities in the United States and other countries over the last 20 years. Rioting and bus burnings occurred in Netzahualcoyotl in 1981 following bus fare increases and levels of crime have increased notably as economic conditions have deteriorated. In contrast, during the decades when the economy was growing rapidly and creating many new jobs and opportunities, the realistic expectation of better times—steady work, material gains, the chance to move up on the economic ladder—attracted the migrants to the cities, sustained their hopes, and kept them quiescent.

52. It is not clear to what extent the majority of slumdweller are being effectively absorbed into the PRI's patronage networks or the regime's social services. The PRI created the Federation of Lower Class Areas to protect the interests of slumdweller in the party. The popular sector of the party to some extent has organized low-level urban entrepreneurs such as street vendors and lottery ticket sellers; those with

steady jobs have probably joined one of the progovernment unions; and the party also creates some dependency relationships in the slums by empowering neighborhood *caciques* (or bosses) who help provide electrical and other services to the poor. Party affiliation, however, seems generally to reward those who have already achieved some limited success and upward mobility, rather than to act as a facilitator for such advancement. The government bureaucracy provides some basic health, sanitary, and subsistence services in the shantytowns, and in Monterrey the city government builds low-cost housing, provides subsidized credit, and has established some small industries. We are unable to judge to what extent such support results in backing for the regime.

53. Opposition parties and independent mass organizations have been making gains in some of the *colonias populares*. The PAN reportedly has made inroads in some northern slums, and the Communist-dominated coalition has had some limited success as well. The greatest growth has been experienced by a subculture of slum institutions and associations that often provide services normally the exclusive prerogatives of the government and the PRI. Independent squatter organizations active in Monterrey and Ciudad Juarez provide police protection, people's courts, schools, and utility services to people in the shantytowns. Slum organizations have also formed in Acapulco. In 1979 a national slum coordinating body was founded, to provide national leadership, and by early the following year it had affiliated 14 confederations of squatter settlements in a few northern cities. We have no further knowledge of its activities or size, but the implications of such opposition party and independent organizing in the slums could be highly significant over the longer term.

D. Leftwing Opposition

54. Leftwing political parties—small, weak, and divided—have been constantly eclipsed by the ostensibly revolutionary PRI that claims to represent all of the groups that in other countries are the natural constituencies of the far left. In the last presidential elections leftwing candidates won 8 percent of the vote by the official count—probably a fairly accurate reflection of their actual appeal. As long as they eschew violence both in theory and practice, Marxist and radical parties are allowed to exist because they are stabilizing forces in the political system. Radical parties are often co-opted by the PRI, alternately running their own candidates—who are secretly fund-

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ed by the regime—or supporting PRI candidates who, as a result, presumably gain greater leftist backing. Independent leftwing parties have tended also to serve PRI interests by lending credibility to the questionable authenticity of the electoral process, providing the regime's leftwing critics with peaceful and observable avenues through which to channel their dissent, and giving additional means of criticizing conservative forces, leaving the PRI to appear as a centrist force. They also serve Mexican foreign policy needs and objectives by enhancing the illusion of an open and democratic society, by acting as lightning rods for outside extremists who attempt to meddle, and by giving the regime indirect access to and intelligence about international Marxist and radical organizations.

55. The largest and best organized force on the left is the Unified Socialist Party of Mexico (PSUM), an amalgam of a few minuscule Marxist and radical factions and the Mexican Communist Party. Constituted in 1981, largely to improve the Communists' prospects in the presidential elections, the PSUM claims only about 30,000 members among a crazy-quilt of contentious factions. Its greatest strength is with university professors and students, particularly at the huge National Autonomous University in the capital and at a few state universities. The Communists have not been able to retain the support of most university students once they leave the campuses, however, and the emphasis on organizing among mostly middle-class youth has tended to detract from the party's appeal among workers and peasants. Despite recent reverses, the Communists are strong in a university workers' organization. They have made inroads in the large teachers union that is a component of the PRI's popular sector. The party also stays busy endeavoring to cement alliances and mergers with other leftist parties and splinter groups throughout the country to bolster its claim to be the preeminent leftist challenger to the PRI. It is prominent, for instance, in the newly formed National Association of Workers and Peasants, which unsuccessfully attempted on two recent occasions to organize national strikes.

56. Leaders of the PSUM reportedly have decided to increase their recruiting and organizational efforts in the states closest to Central America. They work with the radical leaders of the COCEI—the Coalition of Workers, Peasants, and Students of the Isthmus—in Oaxaca and may have made some progress in attempting to establish a base among leftwing opponents of the government. The PSUM's best prospects for expanding its influence may lie in such activities in the

troubled southern tier states. Working through radical, leftist, peasant, and labor front groups, the party could generate increased support for its causes.

57. Other recognized parties on the extreme left include the small Popular Socialist Party and the Socialist Workers Party, but both are to some degree manipulated by the PRI. Unlike them, the Trotskyite Revolutionary Workers Party (PRT), with an estimated membership of several thousand, has attracted considerable attention because of its strident antigovernment positions. Its charismatic presidential candidate, Rosario Ibarra de Piedra—the first woman to run for that office—proved an indefatigable campaigner who, though not a member of the party, was nominated because of her connections with assorted human rights and activist groups. The PRT stands a good chance of attracting new support from alienated youth and disenchanted middle-class professionals, especially if Ibarra continues to play a leadership role. Finally, the Mexican Workers Party (PMT), which benefits from the support of several internationally known Mexican writers and intellectuals and the prominence of its leader, Heberto Castillo, could also expand by appealing to youths and intellectuals. Apparently recognizing the potential threat posed by the PMT, the government has repeatedly denied it official party status, which prevents it from competing in elections.

58. Radical leftist activists also are presently organizing in southern Mexico. The COCEI has expanded its support in Oaxaca since 1981 when its youthful and radical candidate won the mayoralty in Juchitan, that state's second-largest city. Though federal and state governments applied a spectrum of leverage against the wayward administration—from coercion to withholding of funds—COCEI has expanded its activities in nearby cities and probably elsewhere in Oaxaca, and perhaps too in neighboring Chiapas. Increasingly concerned, PRI officials provoked a violent confrontation in Juchitan in August 1983 that resulted in several deaths. That violence provided the pretext for state authorities to impeach the Juchitan government and to empower an interim administration. In December 1983 government forces forcibly evicted COCEI members who had for months occupied the city hall.

59. Though the regime now seems to have the group under control, it still has the capability to mount demonstrations as it has in the past, and thus to attract attention to its cause in Mexico and internationally. Some of its leaders have gone into hiding, and some analysts believe it may now be committed to organizing clandestinely. Developments in Juchitan have

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made it more likely that extremists from around the country will become interested in conditions in Oaxaca, and seek to become involved in behalf of poor peasants and regime opponents. That state is populated largely by Zapotec Indians, who have a history of resisting central government authority that dates back to before the Spanish conquest. In part as a result, they have benefited relatively little from the economic development that has occurred through most of the rest of the country.

E. Cuban and Soviet Involvement

60. Through their large Embassy and intelligence contingents in Mexico City, Cuba and the Soviet Union maintain contact with and provide funding and other support to local leftists, to revolutionaries from Central America and elsewhere, and almost certainly to the Mexican Communist Party. Havana reportedly funds and gives clandestine support to several publishing and propaganda ventures that support Cuban policies and objectives. We know of a few firms in Mexico that are fronts for the Castro regime—a

61. With one notable exception, the USSR has been reluctant to support committed revolutionaries who would employ violent methods against the Mexican regime.

While its contacts with Mexican leftists and intellectuals are more extensive, the Castro regime has always placed a higher priority on maintaining constructive relations with successive Mexican governments than on promoting opposition to them. Thus, unlike virtually every other country in Latin America, Mexico has enjoyed a high degree of immunity from Cuban meddling, and in return has consistently been one of Havana's strongest supporters in the region. Under most circumstances, we believe this tacit understanding will continue to serve the interests of both countries and that Castro will refrain from activities that could link Cuba

with direct and serious threats to the stability of the Mexican political system.

62. Nonetheless,

Castro and his hardline advisers may now believe that they should have done more in recent years to help the left organize and develop links to the masses. We would expect that small and deniable efforts to train small numbers of Communist Party and other subversives might soon begin, if they are not already in progress.

a Mexican revolutionary completed two years of training in Cuba in 1982. Thus, if levels of instability were to rise in Mexico, we believe it would be more likely that Cuba and the USSR would expand their subversive activities, and it would be easier for them to do so.

63. In addition, many analysts believe that the external Marxist-Leninist threat to Mexico would increase if Soviet-, Cuban-, and Nicaraguan-supported revolutionary groups were to prevail elsewhere in Central America. Mexican military, business, and other interests would view a revolutionary victory in Guatemala with more alarm than in El Salvador, and it would probably generate some significant policy disputes in the leadership. Tensions might be aggravated, moreover, if Mexican Communist and other radical groups were emboldened by a Marxist victory in Guatemala to establish a more conspicuous presence in Chiapas or other southern states. We suspect that de la Madrid would share the concerns of his generals and move firmly to contain and repress any Mexican radicals who became more active in such a situation. Radical or Marxist gains in Central America would probably result in greater Mexican troop and other military commitments in Chiapas. De la Madrid might also discreetly seek additional foreign security assistance and intelligence cooperation.

III. POTENTIAL CHALLENGES TO THE REGIME

A. Generational Strife

64. Despite their huge numbers, youths and students have been relatively quiescent in Mexico since the late 1960s and early 1970s. Urban youths are bearing a disproportionate share of the rising unemployment, and many of those who soon will try to enter the labor force will be frustrated and unemployed in the foreseeable future. The aspirations and career plans of educated, middle-class youth—who would be in the vanguard of any generational movement—have probably been threatened by the economic crisis. They typically do not become illegal migrant

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workers, enter the nontraditional or underground economy, or retreat to family plots or villages when urban opportunities disappear. If the economy continues to decline, then, in some respects at least, their alternatives may be even more limited than those of working-class youth.

65. A large and powerful youth movement could coalesce fairly quickly in Mexico, by starting from a small nucleus at one of the universities in the capital, and attracting a large following at other campuses and secondary schools. In the present environment, a radical or dissident youth movement could become a major destabilizing force with an impact far out of proportion to its original numbers. Youth movements characteristically seek alliances with labor and peasant groups, and on many occasions in Latin America, have organized around the grievances of those groups rather than any specifically their own. Dissident youth are also more likely than almost any other group to be susceptible to the entreaties and doctrines of leftwing intellectuals and organizers. Until economic stringencies abate, the ability of the government to co-opt dissatisfied youth, through expanded public-sector hiring, for instance, will be minimal.

B. Leftist Dissidents

66. The legitimacy and authority of the system could also be challenged by new radical groups like those that were active in Mexico in the late 1960s and early 1970s. We believe there are many leftist intellectuals, professors, students, and others who are seeking the means to mount extralegal opposition to the regime. Under the likely leadership of Marxist intellectuals, radical university youth, and members of the established leftist parties, radical leftists might be able to attract followers by exploiting the hardships and discontent resulting from economic stringencies, and benefit from the assistance of some of the radical political exiles and activists from several Latin American countries now living in Mexico.

67. In addition, senior government and security officials reportedly are concerned about the possibility that guerrillas will become active in Guerrero state where small groups were active in the late 1960s and early 1970s. After years of exile in Cuba, several members of that earlier insurgency were allowed to return to Mexico under an amnesty declared by President Lopez Portillo and security officials are worried that they may initiate guerrilla tactics again. Government leaders are concerned, moreover, that leftist students from other countries in Latin America at the state university will assist local radicals.

68. The Mexican Government is concerned about the impact of guerrilla activity across its border with Guatemala, especially in Chiapas. A number of refugee camps have been established in Chiapas that are being used by Guatemalan guerrillas as safehavens. The camps have also attracted the interest of international human rights and other activist groups, and of Mexicans and foreign observers.

it is clear, nonetheless, that de la Madrid and his advisers are concerned. The President's first trip outside of Mexico City after his inauguration was to Chiapas, and the man he selected as governor is a retired general. In the summer of 1983 the government announced that it will invest large amounts in Chiapas in social and economic development projects,

In September 1983 the government created a new military zone in Chiapas and is in the process of assigning additional troops there. The government's silence belies its concern over the issue and it has posed obstacles to foreign official travel in the region.

IV. THE OUTLOOK

69. Mexico's leaders are confronting serious economic and political problems that will not be remedied quickly, nor by traditional fixes alone. During the period of this Estimate—through the remainder of de la Madrid's term and the first few years after his successor is scheduled to take office in December 1988—these problems are likely to generate greater pressures and demands for structural changes in Mexico's political economy.

70. In dealing with these problems in the traditional manner of Mexican presidents, de la Madrid so far has attempted to play both sides of the issues. His repeated promises to decentralize the system and to democratize the PRI's candidate selection process, as well as the unprecedented series of local election victories by the PAN [] were apparently meant to satisfy reformers at high levels of the party and government and to assuage the discontent of many in the middle class, including intellectuals, youths, and provincial and private-sector elements.

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[redacted]
We believe,

[redacted] that other reformers are concerned that the system has become too centralized and rigid.

71. Since September 1983, however, de la Madrid has seemed to favor hardline party and government stalwarts. Since the hotly contested local elections in Baja California state in that month, PRI candidates have been certified winners in several cities where opposition parties, [redacted] probably won the elections. Hardline leaders will press de la Madrid

to reinforce the hegemony of power long enjoyed by the PRI and the larger political system. Organized blue-collar labor leaders, many PRI stalwarts, entrenched government bureaucrats, and other vested interests are anxious to maintain their monopoly of power and undoubtedly favor the use of more openly authoritarian methods by the regime to do so. Some of these elites—labor in particular—were in the forefront of efforts during the 1970s to curb the political reforms that were enacted by Lopez Portillo because they realized that any reshuffling of political power would further dilute their share. We speculate that such traditional and hardline interests lobbied so strenuously last summer against the certification of further

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During the period of this Estimate de la Madrid and other key leaders will have to make tough decisions involving:

Central Economic Dilemmas

- The merits of alternative economic development strategies, including the role of the central government in guiding the economy, and improving the confidence and productivity of the private sector.
- How to relax nationalistic foreign trade and investment codes to help finance renewed economic growth while reducing trade barriers to enhance productivity and promote exports.
- How to service the foreign debt while increasing imports necessary for growth.

Political and Social Problems

- How to reform and revitalize the system and extend its reach into such relatively neglected areas as the slums and youth.
- Decisions on opening the system to opposition political parties without giving too much too quickly.
- How to stanch the growth of Mexico City and some other large cities.

electoral gains by the PAN in local and municipal elections that de la Madrid bowed to their wishes. We believe, however, if hardliners continue in the ascendancy and are able to prevent PAN candidates from winning in locales where conservative sentiment is strong, the system's monopoly of power will eventually be more rather than less threatened. Much will depend on the interaction of the following major variables, along with the many others already discussed.

A. De la Madrid

72. The most important is probably de la Madrid himself: his outlook, psychology, skills, and leadership qualities. Mexico's presidents are commonly described as six-year caesars. The chief executive exercises patronage powers over thousands of jobs in the executive branch ranging from the cabinet and numerous government agencies and enterprises to the selection toward the end of his term of the man who will succeed him. In addition, senators, deputies, state governors, mayors of important cities, and other local officials—though nominally elected—are in fact designated by the president, and they in turn are expected to demonstrate overriding loyalty to him rather than

to their constituents. He also appoints military leaders to key positions.

73. Political power flows downward through hierarchically organized interest group structures—labor unions, peasant confederations, chambers of commerce—and only the president has the final authority and legitimacy to arbitrate disputes and apportion government favors among them. He can demand that groups comply with policies they oppose and has the power to coerce them into doing so if all else fails.

74. Perhaps the paramount danger to the system, therefore, is that any serious vacuum of power at the top could result in its paralysis, or in the extreme, in its breakdown. There is no vice president and although the legislature has the duty under the constitution to appoint a replacement for a president who dies or is incapacitated in office, this might lead to a political crisis, particularly if his successor is weak or is appointed only after a power struggle. There are also other dangers in a system that concentrates so much real and symbolic power in a single individual. The presidency also could be undermined, for instance, if de la Madrid were implicated in large-scale corruption or were to conspicuously vacillate about how to deal with any pressing political problem, or appear weak, unmanly, or "un-Mexican."

75. During the year or so he has been in office, de la Madrid's performance has been generally impressive and his record remains unblemished by any major failures or crises. He and his advisers have managed the economy ably, and he has pragmatically and decisively defused several potentially serious challenges to the regime. Confronted on two separate occasions by striking leftist government workers, de la Madrid stood firm, and without having to resort to public demonstrations of force, compelled the unions to back down. He also skillfully handled a protracted confrontation in Oaxaca state between PRI and government authorities on the one side and members of a radical new left group on the other. Thus, although prior to 1982 he had little experience outside of finance and public administration, de la Madrid obviously developed keen bureaucratic-political skills during the many years he spent rising through the federal hierarchy. Another view, however, is that de la Madrid has done little to consolidate his power, that he has lost opportunities to provide decisive leadership on key problems, and that he tends to vacillate under the conflicting counsel of different advisers.

76. Clearly, questions about his political powers and leadership abilities remain. He was criticized for lackluster performances in public appearances during his presidential campaigning, and tends to be remote

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and aloof from the actual problems of the mass of the population. His credibility with blue-collar labor was known to be low before he became President, and, though union leaders have collaborated with him closely since then, many may have serious doubts about his long-term commitment to their interests. Although he has been tough with dissident groups on the fringes of or outside of the political system, we do not know how he will fend off such traditional sectors as blue-collar labor, public workers, and private groups. Thus some analysts are not persuaded that de la Madrid has the political and leadership skills—to appeal directly and charismatically to mass audiences, for instance—that could be required over the next five years.

77. Regardless of whatever personal strengths and liabilities may shape de la Madrid's performance, moreover, we are not certain that the presidency itself continues to enjoy the strong legitimacy that it did before the 1970s.

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B. The Economy and Labor

78. Economic performance will also be key. After almost five decades of strong economic growth and the evolution of a political system in which opposition and dissident groups have been co-opted or absorbed once accepting greater material rewards, the zero and negative sum economics of the last few years are undercutting the traditional rules of the game. With stagnation or continued economic decline, elite groups within the "revolutionary family" will be likely to begin competing more forcefully for a larger share of the diminishing per capita economic pie. Although the PRI's blue-collar labor sector has suffered great deprivation without much clamor, indefinite sacrifice is not likely. Labor will be likely to escalate demands for wage and other benefits later this year or in 1985. Moreover, the chances for wildcat strikes and possibly violent labor unrest would increase.

79. Such developments would probably have an unsettling effect throughout the political system, and

could provoke other groups—slumdweller or opposition party members—to employ similar tactics. They would probably also have deleterious effects on the economy by undermining public confidence, but we doubt that by itself labor unrest of the type described would be regime threatening. There might also be a greater chance of labor-inspired instability once Fidel Velazquez leaves the scene. He does not seem to be grooming any particular successor among the several likely candidates jockeying for position to replace him. It seems highly unlikely that he will be able to stay in charge of the labor movement through the period of this Estimate, and probably will be forced to start sharing power with subordinates within the next few years. Thus, decentralizing pressures from within the labor movement seem likely to in-

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crease over the next few years, though we cannot say that such a trend would in itself necessarily be destabilizing.

80. If the economy were to continue to decline for another four or five years, the prospects for regime-threatening instability would rise significantly. Although unlikely, a protracted economic crisis could result from diverse combinations of events involving, for instance: outbursts of violence either by or against the regime, conflict and indecision among de la Madrid's circle of advisers resulting in weak leadership, external shocks to the economy, or the appearance of a charismatic new opposition leader with credibility in establishment circles. In an atmosphere of deep and enduring economic stringencies in which working-class and slumdwelling people continued to suffer reductions in living standards and well-being, the potential for antiregime violence would increase. Food riots, bus burnings, police brutality, or other localized incidents could then spark larger disturbances that would require major commitments of military force. Even if order were soon restored, the damage to the political system and the economy would be substantial.

81. In the unlikely event that the military and security forces were unable to intimidate dissidents or overwhelm protestors early,

the armed forces would be hard pressed to keep protests under control should widespread disturbances occur. The military is not prepared—in terms of manpower, logistics, transportation, or command structure—to contend with major simultaneous threats in several parts of the country.

C. The Military

82. As long as relative stability prevails, we expect that de la Madrid will continue to cultivate the military through public gestures and some government appointments. De la Madrid is likely, in particular, to involve defense and security officials in the planning and policy processes in their areas of responsibility. The military will continue to be used as an instrument of rural economic and social development, especially in the southern states.

83. Any significant increase in instability or external threat that requires military response would be likely to result in a commensurate rise of military involvement in the policy process as more governmental concerns take on a security dimension. We believe that the great majority of military officers support the

system and would be disinclined to intervene in the political process because this would violate informal rules that have governed their behavior since the 1940s.

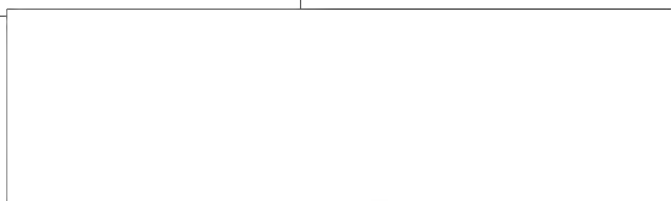
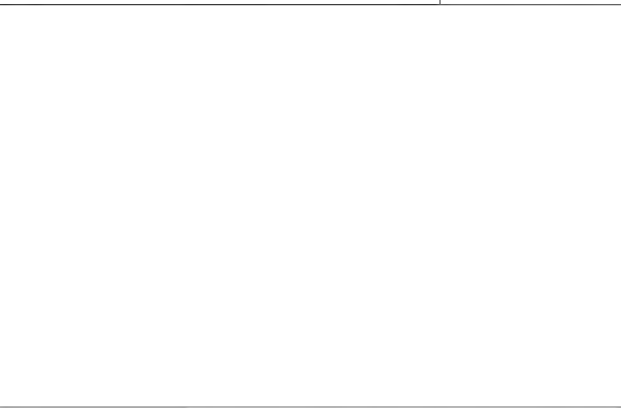
at least some officers have been concerned over the political leadership's ability to deal with current economic and political problems.

84. Some transformation of the traditional order is likely over the period of this Estimate. In the first instance, we expect to see the PRI try to maintain control through a creative mix of co-optation, assimilation, and the selective use of force. We note that, throughout its history, the PRI has been remarkably skilled in adapting itself to a changing social, political, and economic environment—and that indeed some reforms designed to revitalize the PRI are even now in train. We judge there is a better-than-even chance that the PRI will continue to demonstrate a capability to co-opt or assuage the leaders of all major interest groups.

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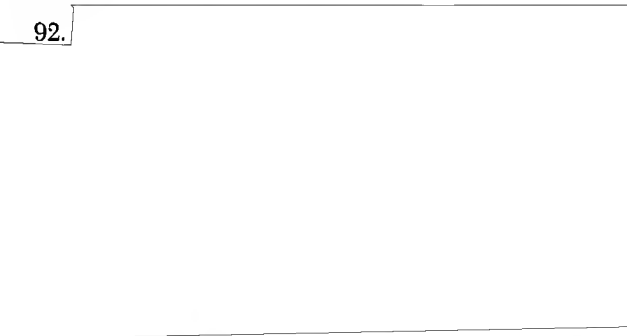


VI. IMPLICATIONS FOR THE UNITED STATES

91. US political and economic interests will be affected substantially by conditions in Mexico during the period of this Estimate. The security of our southern border depends on the continued existence of a stable, united, and peaceful Mexican neighbor. Other core interests—

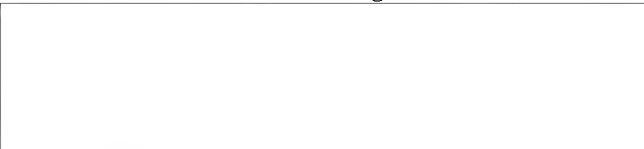
the flow of illegal migrants and drugs into this country, the availability of Mexican petroleum, bilateral trade and investment relationships, and continued Mexican willingness to make payments on its foreign debt—will be affected by Mexico's success in dealing with the challenges facing it.

92.

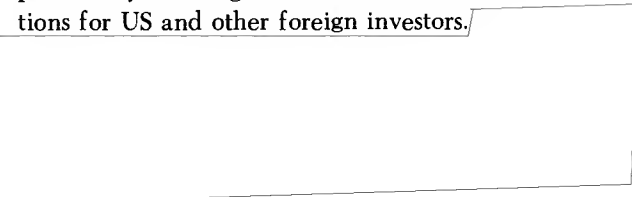


93. The tempo of illegal migration to the United States, for instance, will probably reflect incremental changes in employment patterns and economic conditions as well as levels of stability in Mexico. Bottom-line rates will undoubtedly be high for decades, as nearly a million Mexicans come of age every year and seek to enter into the labor market on one side of the border or the other. Significant recovery of the Mexican economy might slow migratory flows. Substantial deepening of the economic crisis or increased use of force to maintain PRI hegemony, however, would result in additional migrants or refugees, and many of them would probably be skilled workers and professionals whose departures would further undermine Mexico's economic prospects.

94. Compliance with the IMF's stabilization program and keeping up with its sizable debt service obligations will be a challenge to Mexican leaders even under favorable political and economic assumptions. We believe that both the current leadership and the conservative opposition are committed to meeting the debt burden and will remain so, unless the international debt climate is radically altered. Further reschedulings of Mexico's foreign debt will doubtless be necessary, however, beginning in 1985. Mexican leftists and nationalists will energetically denounce the tough terms of the IMF austerity and the conditions of repayment to US and other foreign commercial banks, pressing the government to take a tough negotiating stance. Moreover, further deterioration of the economy could resurrect the threat of a de facto default on part or all of the debt, putting pressure on the United States to provide emergency financial assistance and other concessions as it did during the summer of 1982.



95. Bilateral trade and investment issues are likely to become more contentious, regardless of the political path Mexico takes. Mexican leaders will still demand a larger share of US markets for their agricultural and other exports, while imposing even greater restraints on the import of goods and services from the United States. They will probably intensify their arguments that Mexico must be enabled to sell more on the US market if it is to earn sufficient hard currency to meet debt service obligations. Nationalists in and out of government will be likely to oppose any significant relaxations of Mexico's strict foreign investment codes, although pragmatic leaders will want to attract increased US and other foreign investment to help in economic recovery. The "in-bond" border industries that produce goods in Mexico for the US and international markets may increasingly become targets of leftist criticism. Over the longer term a more open political system might result in more favorable conditions for US and other foreign investors.



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96. Mexican petroleum production levels will depend on a number of factors, including the availability of investment capital, world market conditions, the status of Mexico's foreign debt obligations, the degree of labor militancy in the oil sector, and the political stability of the country. While sporadic disruptions due to strikes might occur [redacted]

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[redacted] Mexico's continuing need for massive oil revenue indicates that the country will continue to be a generally reliable supplier unless political fragmentation occurs.

97. Mexico's foreign policy—particularly its independent approaches to Central America and Cuba—will almost certainly continue as a source of friction in relations with the United States.

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99. The myriad US relationships with Mexico will remain complex, contentious, and cumbersome over the period of this Estimate. They will involve a spectrum of social, economic, cultural, security, and other relationships that flow relatively freely across the 2,000-mile border, and they will inevitably be complicated by the forces and trends that are changing Mexico's political and economic landscape. Many of the challenges Mexico will face over the period of this Estimate will be difficult to manage [redacted]

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[redacted] While we judge that, on balance, Mexico will be able to adjust and cope, miscalculations could provoke crises threatening the system and US interests.

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